

*City of Alexandria, Virginia*21
2-13-01

MEMORANDUM

DATE: FEBRUARY 8, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: CONSIDERATION OF THE RESOLUTION FROM THE LANDLORD-TENANT RELATIONS BOARD REGARDING THE VOLUNTARY RENT GUIDELINES

ISSUE: City Council consideration of the Resolution from the Landlord-Tenant Relations Board regarding the Voluntary Rent Guidelines for 2001.

RECOMMENDATION: That City Council approve the attached Resolution (Attachment I) to maintain the City's Voluntary Rent Guidelines at 5% where the tenant pays utilities and increase the percentage from 7.5% to 9% where the owner pays utilities, as recommended by the Landlord-Tenant Relations Board.

BACKGROUND: Since 1950, the Code of Virginia has prohibited localities from enacting rent control. However, for over 20 years, the City has encouraged landlords to limit rent increases in accordance with the City's Voluntary Rent Guidelines. The City's Voluntary Rent Guidelines are suggested maximum rent increases for existing tenants, but they provide no authority to the City to enforce the guidelines against landlords who fail to comply with them. In addition, these guidelines do not apply to the lease-up of a vacant unit, and they apply only to rent increases for occupied units.

If approved by City Council, the proposed Voluntary Rent Guidelines will remain in effect for at least the next six months. The Landlord-Tenant Relations Board reviews the guidelines every six months, and makes recommendations to City Council at least annually regarding this adequacy. If significant market changes occur, the Landlord-Tenant Relations Board may recommend changes more frequently. The current guidelines, most recently reviewed by City Council in November 1999, increased at that time to 7.5% if the landlord pays utilities and 5% if the tenant pays utilities. Previously, the guidelines had remained unchanged since March 23, 1993, when City Council adopted a Resolution lowering the guidelines from 5% to 4.5% if the tenant pays all utilities and from 7.5% to 7% if the landlord pays utilities.

In preparation for these recommendations, the Board considers increases to the operating cost data compiled by the Institute for Real Estate Management (IREM) as well as rent increase data

and annual vacancy surveys by Delta Associates, a national real estate consulting firm. The Board also considers increases in market rents for the City. This year the Board also reviewed complaint data collected by the Office of Housing, as well as budgets based upon rental property averages in Alexandria. A subcommittee of the Board prepared these budgets to provide a concrete analysis of anticipated landlord costs and current market conditions. In reviewing these data, the Landlord-Tenant Relations Board attempted to set the guidelines at a level which will account for inflation and property owners' increases in cost, without unduly burdening tenants.

DISCUSSION: Based on complaint information, staff estimated that in previous years approximately 1% of the City's landlords with properties of 10 or more units had failed to comply with the Voluntary Rent Guidelines. However, noncompliance has increased significantly over the past two years due to strong rental market conditions and increases in costs. Recognizing this increase in market rents and resulting noncompliance in 1999, the Landlord-Tenant Relations Board recommended increasing the Voluntary Rent Guidelines by one-half of one percent.

Despite the increase in the guidelines, staff of the Office of Housing's Landlord-Tenant Relations Division has received a number of complaints regarding rent increases that have not been fully resolved. Some landlords have reported that renovations, increases in operating costs and market conditions prevent compliance with the Voluntary Rent Guidelines. Other landlords have simply stated that current tenants pay rents far below the market rents for the units they occupy; therefore, it is necessary to increase rents for those units. In some cases, staff is able to negotiate with the landlord to reduce the rent increase, but the reduction does not necessarily bring the increase into compliance with the Voluntary Rent Guidelines.

When staff is unable to successfully mediate a tenant's increase, and there are a number of complaints from the same complex, landlords are requested to justify increases to the Landlord-Tenant Relations Board. In fiscal years 1999 and 2000, two complexes were asked to justify increases to the Board. In both cases, the Board agreed that the increases were justifiable based on evidence of rehabilitation and increased costs. The Board asked both owners to implement measures to mitigate the impact on current tenants by staggering increases and offering less expensive units to residents who chose to move to reduce their housing costs. It is anticipated that additional properties will be contacted by the Landlord-Tenant Relations Board to seek justification for excessive increases over the next few months. If the Board is not satisfied with the justification provided by the property owners, the Board will seek to have the properties comply with the Voluntary Rent Guidelines.

Attachment II shows complaints and inquiries received by the Office of Housing's Landlord-Tenant Relations Division concerning rent increases above the guidelines during the period October 1999 through September 2000. When staff receives a complaint of a rent increase in excess of the guidelines, an investigator contacts property representatives, advises management of the guidelines, and attempts to mediate a lower rent increase. As indicated in complaint data (Attachment II), staff has been able to mediate reductions in rent increases in less than 25% of the complaints filed. This is a significant reduction over past years when staff was able to mediate almost all complaints filed.

In reviewing these complaint data, the Landlord-Tenant Relations Board determined that in the current rental market, there is significant noncompliance on the part of landlords who had previously cooperated with the City in adhering to the guidelines. To address this issue, the Board determined that it would need to consider the reasons for noncompliance by landlords that had previously cooperated with the guidelines. The Landlord-Tenant Relations Board created a subcommittee that proceeded to do an analysis of property operating costs, and determined the percentage increase in rent needed to counteract the effects of inflation and allow owners a reasonable return on their investment.

To establish costs for the City, staff and the subcommittee prepared property budgets based on average rents and expense percentages published by Delta Associates. Included in these budgets were anticipated increases in operating costs, utilities, labor costs, maintenance costs, unit turnover, and debt service, which were based on the Consumer Price Index, tax increases estimated by the City's Office of Real Estate Assessments, and projections by utility companies. Separate budgets were prepared for properties with landlord-paid utilities and properties with tenant-paid utilities.

After reviewing these data, the subcommittee determined, and recommended to the full Board, that the current 5% annual increase for properties in which tenants pay all utilities is adequate, and allows the landlord a reasonable return after accounting for increased expenses. However, the subcommittee determined that due to significant increases in utilities, the current 7.5% recommended percentage for properties where landlords pay utilities is insufficient. Sample budgets indicated that properties paying utilities that applied a 7.5% increase would lose money over the course of a year. Unusual or capital improvements were not calculated by the Board in determining reasonable increase guidelines. The resolution adopting the Voluntary Rent Guidelines includes provisions which allow adjustments for unusual costs, including capital improvements, major repairs or significant increases in taxes or assessments.

At its January 3, 2001 meeting, the Landlord-Tenant Relations Board voted to recommend to City Council that the Voluntary Rent Guidelines increase to 9% for properties with owner/landlord-paid utilities, due to the sharp increase in utility costs now being experienced in the region, and remain at 5% for properties where tenants pay utilities. The motion for this recommendation passed five to zero, with two landlord members, two tenant members, and one homeowner in favor of the motion. Two homeowner members abstained, stating that they believed the guidelines should not increase, as they felt that Alexandrians, and particularly those on fixed incomes, would be burdened by a nine percent increase. The two abstaining members noted that salaries, pensions and social security payments are not rising at 9% per year. However, the five members of the majority indicated that not responding to the perceived inadequacy of the guidelines would cause additional noncompliance. The full Board agreed that many Alexandrians had been financially disadvantaged by high rent increases and noted that Delta and IREM data showed that per annum effective rent increases for the region had consistently exceeded the City's Voluntary Rent Guidelines. However, members voting in the majority also noted that the guidelines give staff a negotiating tool in mediating rent increases.

As long as the Virginia law remains as it currently is, the guidelines will remain voluntary, and the City will be unable to mandate that rent increases be held to any recommended percentage. An act of the General Assembly would be required to allow the City to control rent increases.

STAFF:

Melodie Baron, Division Chief, Office of Housing

Robert Mulderig, Deputy Director, Office of Housing

Mildrilyn Stephens Davis, Director, Office of Housing

ATTACHMENTS:

- I. 2001 Voluntary Rent Guidelines Resolution
- II. Complaints and Inquiries Received by Staff from October 1999 through September 2000 from Existing Tenants Experiencing Rent Increases Above Voluntary Rent Guidelines

2001 VOLUNTARY RENT GUIDELINES RESOLUTION
CITY OF ALEXANDRIA, VIRGINIA
RESOLUTION NO. _____

WHEREAS, more than half of the dwelling units in the City of Alexandria are renter-occupied; and

WHEREAS, the Alexandria City Council has continually expressed its concern for the well-being of the City's tenants and landlords through proposed charter changes, legislation, and establishment of the Landlord-Tenant Relations Board; and

WHEREAS, the Alexandria Landlord-Tenant Relations Board has previously expressed its concern to the City Council regarding excessive rent increases;

NOW, THEREFORE, BE IT RESOLVED that the Council of the City of Alexandria, Virginia calls upon the Alexandria Landlord-Tenant Relations Board to monitor and investigate complaints of rent increases in excess of the following guidelines and to conduct a review of the guidelines every six months and forward recommendations to Council at a minimum of every 12 months:

- If the tenants pay all utilities, not more than five percent cumulatively per year;
- If all utilities are included in the rental amount, not more than nine percent cumulatively per year;

PROVIDED, however, that Board investigators will recognize and take into account any unusual costs, capital improvements and major repairs to the property (which should be substantiated by the owner), and extraordinary increases (more than 50%) in assessments;

PROVIDED, further, that the landlord may apportion increased real estate taxes in an equitable manner;

PROVIDED, further, that when a landlord converts utilities to a sub-metered or individually metered system, the amounts of monthly rents, plus annualized utility costs, shall remain within these guidelines.

BE IT FURTHER RESOLVED that the Landlord-Tenant Relations Board will report to City Council on the adequacy of the above guidelines in 2002.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the City of Alexandria to be affixed this 13th day of February, 2001.

ADOPTED:

KERRY J. DONLEY MAYOR
On behalf of the City Council
of Alexandria, Virginia

ATTEST:

Beverly I. Jett, CMC City Clerk

Attachment II

Complaints and Inquiries Received by Staff from October 1999 through September 2000 from Existing Tenants Experiencing Rent Increases Above Voluntary Rent Increase Guidelines							
Month/Year	Complaints & inquiries regarding rent	Management Companies ¹ represented in complaints and inquiries	Complexes represented in complaints and inquiries	Range of Increases above Voluntary Guidelines as reported to staff	Mediated by staff to result in reduced increases ²	Management Companies agreeing to reduced increases as a result of staff intervention	Complexes agreeing to reduced increases as a result of staff intervention
October 1999	5	3	4	10% to 18%	2	2	2
November 1999	6	4	4	11% to 30%	3	3	3
December 1999	9	3	5	6.75% to 23%	0	0	0
January 2000	6	5	6	7.5% to 19%	2	2	2
February 2000	5	3	3	7.9% to 26%	1	1	1
March 2000	9	5	6	7% to 54%	1	1	1
April 2000	11	6	9	7% to 40%	3	3	3
May 2000	10	5	9	12% to 50%	2	2	2
June 2000	15	4	8	6.6% to 64%	3	3	3
July 2000	19	6	13	6% to 35%	2	2	2
August 2000	20	8	12	6% to 41%	3	2	3
September 2000	25	9	20	6% to 66%	3	2	3
Total/Annual	140	20	30	6% to 66%	34	8	14

¹Not all management companies are counted as some callers seeking only information refused to give the name of the complex preferring to handle the complaint without staff involvement.

² Table shows all rent reductions, regardless of whether compliance with the City's Guidelines was achieved. In the majority of cases compliance was not achieved.

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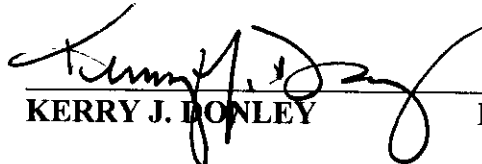
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